

N'Level Revision Set O – Kuo Chuan Presbyterian N'Level Prelim 2024
SOLUTIONS
-PAPER 1-
 Answer **all** the questions.

- 1** Kim Teck is a sole trader. As at 30 June 2023, his business had the following assets and liabilities.

Current Assets	Current Liabilities	Non-current Assets	Non-current Liabilities
\$50 000	\$26 000	\$80 000	\$30 000

Required

- (a)** State the meaning of each of the following terms:

- (i)** Assets [1]

Assets are resources a business owns or controls that are expected to provide future benefits.

- (ii)** Liabilities [1]

Liabilities are obligations owed by a business to others that are expected to be settled in the future.

- (iii)** Equity [1]

Equity refers to the claim by the owner on the net assets of a business.

- (b)** Calculate the equity of Kim Teck's business as at 30 June 2023. [3]

[1] [1]

Equity = \$(50 000 + 80 000) – (26 000 + 30 000)
 = \$74 000 [1]

The table shows the transactions that occurred in Kim Teck's business. Show the effect of the following transactions on assets, liabilities and owners' equity.

	Assets	Liabilities	Owners' Equity
Example: Kim Teck contributed \$10 000 cheque into the business.	Cash at bank +10 000	No effect	Capital +10 000
Kim Teck's business purchased goods worth \$6 000 on credit from a supplier.	Inventory +6 000 [1]	Trade payable +6 000 [1]	No effect
Kim Teck withdrew \$5000 cash from the business bank account for personal use.	Cash at bank – 5 000 [1]	No effect	Drawings – 5 000 [1]

[4]

[Total: 10]

- 2 The trade receivable account for Terry Trading in the books of Lydia Wholesale is shown below.

Trade receivable – Terry Trading

Date	Particulars	Dr	Cr	Balance
2023 Jul 1	Bal b/d			14 000 Dr
9	Sales revenue	3 000		17 000 Dr
12	Sales return		400	16 600 Dr
23	Cash at bank		15 000	1 600 Dr

Required

- (a) Interpret the entries in Trade receivable – Terry Trading account on:

- (i) 9 July 2023 [1]

Sold goods at \$3 000 to Terry Trading on credit.

- (ii) 12 July 2023 [1]

Defective goods were returned to Terry Trading.

- (iii) 23 July 2023 [1]

Received a cheque Of \$15 000 from Terry Trading.

(b) State the source document for each of the transactions on:

(i) 9 July 2023: Invoice [1]

(ii) 12 July 2023: Credit note [1]

(iii) 23 July 2023: receipt [1]

The financial year of Lydia Wholesale ends on 31 July. The trade receivable balances are as follows:

	31 July 2022	31 July 2023
Trade receivables	\$59 800	\$65 000

On 31 July 2023, Terry Trading was declared bankrupt. Lydia Wholesale wrote off the debt of \$1 600 owed by Terry Trading.

Required

- (c) Prepare the journal entry to record the debt written off on 31 July 2023. A narration is **not** required. [2]

Journal Entry

Date	Particulars	Dr	Cr
31 Jul 23	Allowance for impairment of trade receivables	1 600 [1]	
	Trade receivables – Terry Trading		1 600 [1]

Lydia Wholesale maintains an allowance for impairment of trade receivables based on 5% of its trade receivable at the end of every financial year.

Required

- (d) Prepare the journal entry to record the adjustment of allowance for impairment of trade receivable for the financial year ended 31 July 2023. Narration is **not** required. [2]

Journal Entry

Date	Particulars	Dr	Cr
31 Jul 23	Impairment loss on trade receivables	1 860 [1]	
	Allowance for impairment of trade receivables		1 860 [1]

[Total: 10]

$$\begin{aligned}
 59\,800 \times 0.05 &= 2990 \\
 2990 - 1600 &= 1390 \\
 65\,000 \times 0.05 &= 3250 \\
 3250 - 1390 &= 1860
 \end{aligned}$$

3 Jeremy is an accountant preparing the financial statements of a business on

31 December 2023.

Required

- (a) Complete the following table indicating with a tick (✓) on which side of a trial balance each item would appear.

	Debit	Credit
Prepaid rent expense	✓	
Accumulated depreciation of office equipment		✓
Sales return	✓	
Discount received		✓

[4]

After preparing the trial balance as at 31 December 2023, the following errors were discovered by Jeremy.

- (1) Payment of \$2 100 by cheque for advertising has been recorded as \$1 200 in the books.
- (2) Goods sold for \$5 000 has been debited to the sales revenue account and credited to the credit customer Tammy Store.
- (3) The maintenance expense of \$300 for the van was debited to the motor vehicle account.

Required

- (b) Prepare journal entries to correct the errors in each of (1), (2) and (3).

Narrations are **not** required.

[6]

Date	Particulars	Dr	Cr
31 Dec 23	Advertising expense	900 [1]	
	Cash at bank		900 [1]
	Trade receivable – Tammy Store	10 000 [1]	
	Sales revenue		10 000 [1]
	Maintenance expense	300 [1]	
	Motor vehicle		300 [1]

(c)	State one purpose of the trial balance.		[1]

The purpose of the trial balance is to facilitate the preparation of the financial statements

OR

to ensure arithmetic accuracy in recording.

[Total: 11]

- 4** The financial year of Jon Bakery ends on 31 December. On 1 July 2022, Jon Bakery took a loan of \$150 000 from ABC Bank at an interest rate of 2% per annum. The loan has a repayable period of 10 years. Both the partial repayment of the loan and payment of interest are to be made on every 1 July of each financial year.

Required

- (a)** Calculate the amount of loan that is to be repaid on every 1 July of each financial year. [1]

Loan repayment = $150\,000 \div 10 = \$15\,000$

- (b)** Calculate the amount of interest expense incurred on 31 December 2022. [1]

Interest expense = $150\,000 \times 0.02 \times 0.5 = \$1\,500$

- (c)** Prepare the journal entry to record the adjustment to the interest expense as at 31 December 2022. A narration is required. [3]

Date	Particulars	Dr	Cr
31 Dec 22	Interest expense [1]	1 500	
	Interest expense payable [1]		1 500
	(Interest expense owing) [1]		

- (d) Prepare an abstract of the statement of financial performance for the year ended 31 December 2022, showing only the expense section. [1]

Statement of financial performance for the year ended 31 December 2022

	\$
Less : Other expenses	
Interest expense	1 500

- (e) Prepare an abstract of the statement of financial position as at 31 December 2022, showing only the liabilities section. [3]

Statement of financial position as at 31 December 2022

	\$
<u>Non-current liabilities</u>	
Long term borrowings	135 000 [1]
<u>Current Liabilities</u>	
Current portion of long term borrowings	15 000 [1]
Interest expense payable	1 500 [1]

[Total: 9]

[End of Paper]

-PAPER 2-
Answer **all** the questions.

1 Refer to the insert for data for Question 1.

Required

- (a)** Prepare the statement of financial performance for the year ended 30 June 2023.

Toy Mart Ltd

Statement of financial performance for the year ended 30 June 2023

	\$	\$
Sales revenue	302 000	
Less: Sales returns	2 600	
Net Sales revenue		299 400 [1]
Less: Cost of sales		100 800
Gross profit		198 600 [1]
Other income		
Commission income (15970-1000)		14 970 [2]
Less: Other expenses		
Wages and salaries	38 000	
Insurance expense (17000-3000)	14 000 [2]	
Rent and rates	12 000	
Impairment loss on trade receivable	700 [1]	
Depreciation of office equipment	2 500 [1]	
Depreciation of motor vehicles	15 120 [1]	82 320
Profit for the year		131 250 [1]

[10]

(b) Prepare the statement of financial position as at 30 June 2023.

Toy Mart Ltd

Statement of financial position as at 30 June 2023

	\$	\$	\$
<u>Assets</u>	Cost	Accumulated depreciation	Net Book Value
<u>Non-current assets</u>			
Office equipment	50 000	12 500 [1]	37 500
Motor vehicles	180 000	43 920 [1]	136 080
			173 580 [1]
<u>Current assets</u>			
Cash at bank		68 000	
Trade receivables	7 000		
less: Allowance for impairment of trade receivables	700	6 300 [1]	
Prepaid insurance expense		3 000 [1]	77 300
Total assets			250 880
<u>Equity and liabilities</u>			
Owner's equity [1] [1]			
Capital (105630-2000+131250)			234 880
<u>Current liabilities</u>			
Trade payables		15 000	
Commission income received in advance		1 000 [1]	16 000
Total equity and liabilities			250 880 [1]
1 Mark for presentation.			

[10]

[Total: 20]

- 2** Carol runs a trading business, buying and selling sneakers. The business records inventory using the First-In-First-Out (FIFO) method. All transactions are by cheque. On 1 September 2023, Carol had 40 units of sneakers worth \$3 200. During the month of September, the following transactions took place.

Purchases	
September 15	50 units at \$4 500
September 20	50 units at \$3 500
September 25	50 units at \$3 000

Carol sold 140 units of sneakers for \$18 000 on 30 September 2023.

Required

- (a)** Calculate the cost of sales for the month of September 2023. [1]

Cost of sales = 3 200 + 4 500 + 3 500 = \$11 200

- (b)** Calculate the value of the ending inventory on 30 September 2023. [1]

Ending inventory = \$3 000

- (c)** Calculate the gross profit for the month ended 30 September 2023. Show all workings clearly. [2]

Gross profit = 18 000 – 11 200 [1] = \$6 800 [1]

On 31 December 2023, Carol has an inventory balance of \$7 500. She discovered that rats in the warehouse has damaged some of the sneakers and has to be discarded. The net realizable value of the inventory was \$6 800.

Required

- (d) Explain to Carol how the inventory should be valued. [1]

Inventory should be valued at the lower of cost or net realisable value.

- (e) State and explain the accounting theory applied in (d). [2]

According to prudence theory, the accounting treatment chosen should be the one that do not overstate assets and profits.

- (f) Prepare the journal entry to adjust the inventory to comply with (d) and (e).
Narration is **not** required. [2]

Journal Entry

Date	Particulars	Dr	Cr
31 Dec 23	Impairment loss on inventory	700 [1]	
	Inventory		700 [1]

- (g) State the effect and amount on profit for the year and current assets if the inventory was not adjusted. [2]

Profit for the year will be overstated by \$700. [1]

Current assets will be overstated by \$700 [1]

[Total: 11]

- 3 The following balances were in the books of Champion Tuition Centre as at 1 April 2022.

Tuition fee income received in advance \$20 000

During the year ended 31 March 2023, Champion Tuition Centre received by cheque \$24 000 for tuition fees.

On 31 March 2023, the following balances were in the books of Champion Tuition Centre.

Tuition fee income receivable \$8 000

Required

- (a) Calculate the amount of Tuition fee income for the year ended 31 March 2023. [4]

Journal entry

Date	Particulars	Dr	Cr
1 Apr 22	Tuition fee income received in advance	20 000	
	Tuition fee income		20 000 [1]
31 Mar 23	Cash at bank	24 000	
	Tuition fee income		24 000 [1]
31 Mar 23	Tuition fee income receivable	8 000	
	Tuition fee income		8 000 [1]
31 Mar 23	Tuition fee income	52 000	
	Income summary		52 000 [1]

OR

[1] [1] [1]

Tuition fee income for the year ended 31 March 2023 = 20 000 + 24 000 + 8 000 = \$52 000
[1]

- (b) State and explain the accounting theory applied when Champion Tuition Centre adjusted for the Tuition fee income receivable at the end of the financial year. [2]

Based on the accrual basis of accounting [1], income earned but not received must be recorded as income of the current financial period. [1]

Champion Tuition Centre is owned by Mr Loo. On 1 April 2022, Champion Tuition Centre has a capital account balance of \$50 000. During the year, the following took place.

2022 July 13	Mr Loo contributed \$5 000 of his personal furniture to be used in the tuition centre.
December 20	Mr Loo withdrew \$20 000 from the business bank account to pay for his family holiday in Japan.

For the year ended 31 March 2023, the tuition centre made a profit of \$120 000.

Required

- (c) Prepare the following ledger accounts for the year ended 31 March 2023
Bring down the balance where necessary.

- (i) Drawings account. [2]

Drawings Account

Date	Particulars	Dr	Cr	Balance
20 Dec 23	Cash at bank	20 000 [1]		20 000 Dr
31 Mar 23	Capital		20 000 [1]	0

- (ii) Capital account. [4]

Capital Account

Date	Particulars	Dr	Cr	Balance
1 Apr 22	Bal b/d			50 000 Cr [1]
13 Jul 22	Fixtures and fittings		5 000 [1]	55 000 Cr
31 Mar 23	Drawings	20 000 [1]		35 000 Cr
31 Mar 23	Income summary		120 000 [1]	155 000 Cr
1 Apr 23	Bal b/d			155 000 Cr

[If the date for Drawings is wrong, no marks is given to that entry.]

- (d) State and explain the accounting theory applied in recording of capital and drawings. [2]

According to the accounting entity theory [1], the activities of a business are separate from the actions of the owner. All transactions are recorded from the point of view of the business. [1]

[Total: 14]

- 4** Balestier Trading buys and sells aquarium accessories in Singapore. The business purchased all its inventory on credit from a local manufacturer Jackson Ltd. On 1 August 2022, Balestier Trading owed Jackson Ltd \$8 400. The following transaction took place in the month of August 2022.

2022	
August 4	Bought goods at list price \$12 000 less 10% trade discount.
August 5	Goods bought on 4 August with a list price of \$1 000 was found to be defective and was returned.
August 15	Balestier Trading paid the amount owed on 1 August 2022, and was given a cash discount of 1%.

Required

- (a)** Prepare Jackson Ltd ledger account for the month of August 2022. Bring down the balance to the next month. [6]

Jackson Ltd account

Date	Particulars	Dr	Cr	Balance
1 Aug 22	Bal b/d			8 400 Cr [1]
4 Aug 22	Inventory		10 800 [1]	19 200 Cr
5 Aug 22	Inventory	900 [1]		18 300 Cr
15 Aug 22	Cash at bank	8 316 [1]		9 984 Cr
15 Aug 22	Discount received	84 [1]		9 900 Cr
1 Sep 22	Bal b/d			9 900 Cr [1]

- (b)** Give one difference between a trade discount and a cash discount. [2]

The trade discount is given to encourage the customer to buy in bulk [1] while the cash discount is to encourage the customer to pay back early [1].

- (c)** List two features of a sole proprietorship. [2]

It is owned by one person who contributes capital to set up the sole proprietorship [1].

The owner has to pay the debts and losses using his personal assets. [1]

Balestier Trading is considering changing one of its local supplier, Thompson Ltd to a Malaysian supplier, Tian Huat Ltd.

Balestier Trading provided the following information about the two suppliers:

	Thompson Ltd	Tian Huat Ltd
List price per box	\$32.50	\$25.40
Credit terms	30 days With 4% cash discount for payment made within 10 days.	40 days With 6% cash discount for payment made within 5 days.
Delivery charges	\$40 per 100 boxes	\$100 per 100 boxes
Return policy	Returns are to be made within 3 days after delivery	Returns are to be made within one week after delivery.
Reputation of supplier	Has been in business for 40 years.	Has a good online rating and favourable online reviews from customers.

Required

- (d) Advise Balestier Trading which supplier the business should choose. Justify your decision with **two** reasons. [5]

Decision 1	Advised to buy from Tian Huat Ltd. [1]
Reason 1	The list price per box for Tian Huat Ltd is \$25.40 which is cheaper than Thompson Ltd. [1] If he buys from Tian Huat Ltd, his cost of sales will be lower and this will increase his profits. [1]

Reason 2	Tian Huat Ltd provides a longer credit term of 40 days and higher cash discount than Thompson Ltd. [1] This means that Balestier Trading will have better cash flow if he buys from Tian Huat Ltd. [1]
Reason 3	Tian Huat Ltd has a longer returns period than Thompson Ltd. [1] This means that in the event of defective goods, Balestier Trading has more time to return them without incurring any losses. [1]
Decision 2	Advised to buy from Thompson Ltd. [1]
Reason 1	Thompson Ltd provides 4% cash discount for payment within 10 days while that of Tian Huat Ltd is 6% cash discount for payment within 5 days. [1] Balestier Trading can enjoy the cash discount as it will have more time to pay back to Thompson. This will help to reduce the cost. [1]
Reason 2	The delivery charges of Thompson Ltd is \$40 per 100 boxes which is lower than Tian Huat Ltd. [1] This will reduce the expenses and this will help to increase the profit. [1]
Reason 3	Thompson Ltd is in the business for 40 years, so it must be a reliable supplier [1]. Although Tian Huat Ltd has good online ratings and reviews, but nowadays such online ratings and reviews may not be reliable. [1]

[Total: 15]**[End of Paper]**